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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: JULY 9, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF LEGAL SERVICES (PAUGH)
DIVISION OF ELECTRIC AND GAS (BOHRMANN, BALLINGER, BASS, COLSON, DRAPER, HARLOW, MATLOCK, WHEELER)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HICKS, HOLMAN, MCPHERSON, MERTA, REVELL, L. ROMIG, VANDIVER, WELCH)

RE: DOCKET NO. 980001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR.

AGENDA: 07/21/98 - REGULAR AGENDA - POST HEARING DECISION - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: PANEL OF CLARK, GARCIA, JOHNSON

FILE NAME AND LOCATION: S:\PSC\LEG\WP\980001.RCM

CASE BACKGROUND

On August 14, 1997, an evidentiary hearing was held to determine the cost recovery methodology for transmission charges associated with Schedule C, economy energy (broker) transactions. By its Order 888, issued April 24, 1996, the Federal Energy Regulatory Commission (FERC) required investor-owned electric utilities to unbundle transmission and ancillary charges from broker sales. The issues addressed at the hearing were the manner in which FERC Order 888 affected the transaction price and subsequent cost recovery of broker sales between two directly interconnected utilities, and the manner in which FERC Order 888 affected the transaction price and subsequent cost recovery of broker sales between two non-directly interconnected utilities.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

On January 13, 1998, Order No. PSC-98-0073-FOF-EI was issued (Order or PSC Order) determining the appropriate treatment of transmission revenues and costs for broker transactions. On January 28, 1998, Florida Power & Light Company (FPL) and Florida Power Corporation (FPC) filed separate Motions For Reconsideration and Requests For Oral Argument. On February 9, 1998, the Florida Industrial Power Users Group (FIPUG) and the Office of Public Counsel (OPC) filed separate Responses to Florida Power Corporation's Motion For Reconsideration. No responses to FPL's Motion were filed. At the April 7, 1998, Agenda Conference, the Commission voted to hear oral argument from the parties. Oral argument was heard at the April 28, 1998, Agenda Conference. This recommendation addresses the two pending motions for reconsideration and the two pending responses to FPC's motion.

DISCUSSION OF ISSUES

ISSUE 1: Should Florida Power & Light Company's Motion For Reconsideration of Order No. PSC-98-0073-FOF-EI, Docket No. 980001-EI be granted?

RECOMMENDATION: No. Florida Power & Light Company's Motion For Reconsideration fails to demonstrate a basis for reconsideration because it is vague. However, staff recommends the Commission, on its own motion, amend the Order to remedy inconsistencies within the Order.

STAFF ANALYSIS: It is well settled that an agency may reconsider its final Order if the Order is found to have been based on mistake, inadvertence or a specific finding based on adequate proof of changed conditions or other circumstances not present in the proceedings which led to the Order being modified. People's Gas System, Inc. v. Mason, 187 So.2d 335 (Fla. 1966). The purpose of a reconsideration proceeding is to bring to the attention of the agency some matter which it overlooked or failed to consider when it rendered its Order. Diamond Cab Co. v. King, 146 So.2d 889 (Fla. 1962). The mere fact that a party disagrees with the Order is not a basis for rearguing the case. Id. Nor is reweighing the evidence a sufficient basis for reconsideration. State v. Green, 104 So.2d 817 (Fla. 1st DCA 1958).

FPL's Motion For Reconsideration fails to demonstrate mistake, inadvertence, or some matter which the Commission failed to consider when it rendered the Order because the Motion is vague. Staff has spent a great deal of time analyzing FPL's Motion and is unable to discern with certainty that portion of the Order to which FPL objects or the manner in which the Commission allegedly erred when it rendered the Order. Without a clear statement of FPL's objections, staff would be speculating in its response to the Motion. For this reason, staff recommends that FPL's Motion For Reconsideration be denied.

However, as stated in the case background, FPL and FPC requested and were granted oral argument on their Motions For Reconsideration. In its oral argument, FPL opined that the Commission inadvertently erred when it mandated the manner in which broker sales are matched. FPL's representative stated: "However, the Commission did direct in its Order that matches under the broker should be the incremental system production costs and not include the costs associated with transmission service. I would start by saying that I don't think you really intended to go that

far." (TR Oral Argument, pg. 6, lines 7-12) Staff believes that this issue, because of possible internal inconsistencies within the Order, requires reconsideration.

An analysis of the purpose of the proceeding is helpful to understanding this issue. The purpose of the proceeding was to determine the appropriate allocation of revenues and costs from broker transactions. To do this, it was necessary to analyze how matches are made on the broker system and the pricing and cost allocation methodologies employed by each utility.

Prior to FERC Order 888, all the investor owned electric utilities used the same methodology to set quotes on the broker system. Quotes were based on incremental fuel and in some cases, incremental operation and maintenance costs. There was no transmission component in the quote. The broker program matched buyers and sellers from the highest savings down to the lowest savings and used a 'split-the-difference' methodology to determine the transaction prices. Bilateral agreements setting broker charges between the participants were approved by FERC. The original intent of the broker system was to maximize statewide incremental cost savings for fuel. In other words, the broker program acted as an economic dispatch of the participating utilities generating units.

To comply with the FERC unbundling requirement, each utility filed amendments to their bilateral contracts before FERC on January 1, 1997. FERC has not yet approved these tariffs. The transmission component in these tariffs are not an incremental cost of broker sales, but rather a contribution to fixed transmission costs. The intent of the inquiry regarding incremental costs as the basis for matches of broker sales was to ascertain the extent to which the original purpose of the broker system will **not** be maintained if fixed transmission costs enter into the matching methodology. The record is well developed on this point.

Pursuant to Order No. 12923, Docket No. 830001-EU-B, issued January 24, 1984, the gains on broker sales are split 80% to ratepayers and 20% to stockholders. The overriding policy of the instant PSC Order was, to the extent possible, maintain the gains on broker sales the same before and after FERC Order 888. This would hold ratepayers and stockholders harmless from adverse effects of the FERC Order. For this reason, in several places in the Order, statements are made regarding the Commission's preference for continuing to base the transaction price of a broker sale on incremental system production cost and adding any FERC

required transmission costs after the broker has matched a buyer and seller.

The preference for using incremental system production costs continues to be encouraged by the Commission. However, through its oral argument, FPL identified that within the Order there are several places where the language could be interpreted as *requiring* utilities to base the transaction price of broker sales on incremental system production costs and adding the transmission component after the match is made. It was not the Commission's intent to mandate the price of broker sales because it is recognized that the Commission does not have jurisdiction to do so. This error was due to mistake or inadvertence. Therefore, staff recommends that the Commission, on its own Motion, amend the Order to remove any inconsistencies. The amendments recommended by staff are set forth in legislative format in Attachment A, attached hereto.

In sum, FPL's Motion For Reconsideration fails to meet the standard for reconsideration and should be denied. Notwithstanding that, there are statements in the Order which could be interpreted as requiring utilities to match broker sales based on incremental system production cost. Staff recommends that the Order be amended to correct the inadvertence as set forth in the attachment.

ISSUE 2: Should Florida Power Corporation's Motion For Reconsideration of Order No. PSC-98-0073-FOF-EI, Docket No. 980001-EI be granted?

PRIMARY RECOMMENDATION: Yes. Florida Power Corporation has met the standard for reconsideration by demonstrating that the Commission may have made a mistake of fact or law when it rejected the Florida Power Corporation's request for jurisdictional separation of transmission revenues. Because there is insufficient evidence in the record to fully analyze the issue, staff recommends that the matter be addressed at hearing. [Paugh, Harlow, Wheeler, Bohrmann]

ALTERNATIVE RECOMMENDATION: No. FPC did not present any new evidence that was not already discussed at the hearing. Therefore, FPC's request for reconsideration should be denied. Staff understood FPC's argument and Order No. PSC-98-0073-FOF-EI states several reasons why the Commission disagreed with FPC. The focus of the Commission's Order was to keep gains on broker sales the same before and after FERC Order 888. FPC's logic merely reclassifies existing production related revenues which would reduce the credit to retail customers. FPC can file new tariffs at FERC to correct any perceived harm to its stockholders. [Jenkins, Ballinger]

PRIMARY STAFF ANALYSIS:

Florida Power Corporation

Florida Power Corporation's Motion For Reconsideration questions that portion of the Order which requires transmission revenues to be credited and separated on an energy-related, generation basis. FPC argues that transmission revenues from broker sales must be jurisdictionally separated using a transmission separation factor and that the Commission's failure to do so is a mistake. (FPC Motion, pg. 2) With respect to a transmission separation factor, the Order states:

> We do not agree with FPC. The transmission-related separations factor FPC was referring to was the result of the separations, or cost of service, study applied in the establishment of base rates. This separation factor allocates a portion of transmission costs to separated wholesale sales. As noted above, economy sales are non-separated sales. In a sense, FPC is asking that these non-separated sales be treated as separated sales. We

> see no compelling reason for applying a base rate separations factor to non-separated sales. Previously, we have clearly stated that revenues from non-separated sales should be credited to retail customers to compensate them for supporting the investment used in making these sales.

Order, pg. 8

FPC's Motion For Reconsideration is based on three primary points of contention. FPC's first argument is that the Order misapprehends the relationship between 'separated sales' and 'separation factors'. FPC states that the Order incorrectly assumes that the only use of a transmission separation factor is for jurisdictionalized, separated wholesale sales, and because broker sales are non-separated, wholesale sales, the use of a transmission separation factor is inappropriate. (FPC Motion, pgs. 3-4)

FPC's second argument is that to limit the transmission separation factor to only separated wholesale sales ignores the fact that wholesale customers support the investment used in making broker sales. FPC points out that its firm wholesale customers support approximately 25% of its investment in transmission assets.

Third, FPC argues that the Order places it in an inter-jurisdictional conflict.

> Because of Order 888, Florida Power must credit its wholesale business with a share of transmission revenues from economy sales equal to the share of transmission cost responsibility supported by its wholesale business, *i.e.* 25%. If Florida Power must also credit 95% of the same transmission revenues to its retail fuel clause because of the retail class's unrelated energy cost responsibility, it will obviously be forced to credit more revenues than it receives.

FPC Motion pg. 5

FPC states that it will be seriously and permanently harmed by the consequences of the Order, which through mistake, oversight or inadvertence, the Commission has failed to consider. (FPC Motion, pg. 5)

Office of Public Counsel

In its Response to Florida Power Corporation's Motion For Reconsideration, the Office of Public Counsel makes three objections. First, it states that to adopt FPC's position would result in FPC overearning. (OPC Response, pg.1) Second, OPC states that the separation of transmission revenues would allow FPC to collect additional revenues without additional transmission costs. (OPC Response, pg. 1) Third, OPC states that there is insufficient evidence in the record to determine: (1) how transmission rates are established for the wholesale jurisdiction; (2) which wholesale customers are supporting the capital transmission costs; and (3) the manner in which the wholesale customers will receive the benefit of the incremental revenues. (OPC Response, pg. 2) OPC opines that without additional information regarding these enumerated questions, the Commission would be granting FPC a windfall if it were to adopt the company's recommended separation factor.

Florida Industrial Power Users Group

In its Response To Florida Power Corporation's Motion For Reconsideration, the Florida Industrial Power User's Group argues two points. First, FIPUG states that because the Commission specifically considered and rejected FPC's position on a transmission separation factor, FPC is merely rearguing its case and thus has not met the standard for reconsideration. (FIPUG Response, pg. 1) Second, FIPUG argues that FPC's three reasons for seeking a transmission separation factor are without merit. FIPUG avers that the Commission did not misunderstand the proper use of a transmission separation factor. In addition, FIPUG argues that because retail customers do support the transmission system, they should be compensated for their investment. (FIPUG Response, pg. 2) FIPUG believes that no inter-jurisdictional conflict was created by the Order insofar as the Commission has used its jurisdiction properly to protect the retail ratepayers. (FIPUG Response, pg. 3)

Primary Staff Analysis

A brief review of the affect of the FERC Order is instructive in the analysis of the positions of the parties. Prior to FERC Order 888, all broker sales revenues were treated by the Commission as energy-related generation revenues. As such, they were separated into the wholesale and retail jurisdictions on an energy (or kilowatt hour) basis. This was accomplished by crediting the revenues through the fuel adjustment clause. In FPC's case, the energy split is approximately 95% retail and 5% wholesale. Thus when a broker sale was made, 95% of the revenues were credited to

the retail jurisdiction. After FERC Order 888, utilities must identify a portion of the revenues from all wholesale sales, including broker sales, as being attributable to the transmission facilities which were needed to make them. In FPC's case, the transmission split is approximately 75% retail and 25% wholesale.

The PSC Order requires that all broker revenues (including transmission revenues) be returned to the ratepayers through the fuel clause and requires the separation between retail and wholesale customers be on an energy basis. The rationale was that since broker sales are not separated sales, the transmission separation factor does not apply to them. While this rationale is logical and supported by Commission precedent, it may fail to fully account for the transmission cost allocation required by FERC Order 888.

With respect to FPC's first argument, staff disagrees with the statement that the Commission misunderstood the relationship between separated sales and separation factors. The Order specifically recognizes the difference between separated sales and separation factors and rejects that argument made by FPC. Notwithstanding the foregoing, it appears FPC's conclusions regarding separations factors may be correct. Transmission revenues must be identified pursuant to the FERC Order. The retail jurisdiction supports a different proportion of transmission than it does generation in FPC's case. Specifically, the Order, as it is currently written, requires FPC to credit back 95% of the transmission revenues to retail customers when those customers only pay for 75% of the transmission assets. To require FPC to credit transmission revenues to the retail jurisdiction in greater proportion than the retail jurisdiction supports may be inconsistent with the directive of the FERC Order.

FPC's second argument, that limiting the transmission separation factor to only separated wholesale sales ignores the fact that all firm wholesale customers support the investment used in making broker sales, may be correct. The transmission system as a whole is used to make broker sales. In FPC's case, the retail jurisdiction supports only 75% of the investment in the transmission system. The Order requires FPC to credit back 95% of the transmission revenues generated by broker sales. Thus, it may not be appropriate to require the utility to credit back more than an amount proportionate to the retail jurisdiction's cost responsibility. Therefore, staff agrees with FPC that a transmission separation factor for broker sales may be appropriate.

FPC's third argument, that the Order places it in an inter-jurisdictional conflict, is not adequately supported by record evidence. During the hearing, FPC sponsored only general testimony regarding its FERC transmission tariff. There was no testimony relating to the specifics of the contents and effect of the tariff. In addition, FPC's testimony was that the tariff is interim and that no final ruling by FERC has been made on it. For these reasons, and for the reasons set forth below, staff recommends that the issues raised in FPC's Motion For Reconsideration be addressed at hearing.

With respect to OPC's Response to FPC's Motion For Reconsideration, staff disagrees with OPC's first two arguments and agrees with the third argument. OPC's first and second objections are that to adopt FPC's position would result in FPC overearning and would generate additional revenues without additional costs. The transmission separation factor proposed by FPC is simply a reallocation, based on cost responsibility, of revenues which were previously separated only on an energy-related generation basis. That the percentage cost responsibilities between energy-related generation and transmission are different, does not imply that FPC will receive additional revenues. Likewise, the reallocation of transmission revenues should not impact FPC's retail earnings.

OPC's third objection, that there is insufficient evidence to determine: (1)how transmission rates are established; (2)which wholesale customers are supporting the capital transmission costs; and (3)the manner in which the wholesale customers will receive the benefit of transmission revenues, raises some important issues. These issues were not specifically addressed at the hearing. OPC's position appears to be that the lack of evidence renders FPC's Motion For Reconsideration insufficient. Staff disagrees with OPC's conclusion. Rather than rendering the Motion insufficient, staff believes that the issues raised by OPC support the Motion For Reconsideration and demonstrate the need for an additional hearing.

Staff does not believe that FIPUG has established a basis for rejecting FPC's Motion For Reconsideration. FIPUG is correct when it states that the issue of a transmission separation factor was considered by the Commission. However, staff disagrees with FIPUG's assertion that FPC is merely rearguing its case and thus has not met the standard for reconsideration. FPC is rearguing its case but it also met the standard for reconsideration in that it has shown that there may be mistake or inadvertence in the Order. FIPUG also argues that FPC's three reasons for seeking reconsideration are without merit. For the reasons set forth above in staff's analysis of FPC's motion, staff disagrees with this

conclusion of FIPUG's. Finally, FIPUG's contention that because retail customers support the investment in transmission, they should be compensated for it, is not a basis for denying FPC's Motion. Retail customers will be compensated for their investment in the transmission assets of the company regardless of how transmission revenues are separated.

In sum, FPC has met the standard for reconsideration of Commission orders. FPC has adequately demonstrated that there may be mistake or inadvertence in that portion of the Order relating to jurisdictional separation of broker transmission. Staff disagrees with the arguments made by OPC and FIPUG for denying the Motion For Reconsideration. Because there is insufficient evidence in the record to fully adjudicate the issues raised by FPC, OPC and staff, it is recommended that the matter be addressed at hearing.

ALTERNATIVE STAFF ANALYSIS: Broker sales are a classic example of non-separated sales in that they are sporadic and not accounted for during a base rate proceeding. The Florida Energy Broker was designed to replicate statewide economic dispatch for hourly non-fi m economy sales. Prior to FERC Order 888, matches were made based on incremental/decremental production costs. There are no transmission "wheeling" charges associated with directly interconnected utilities. The primary purpose of Order 888 was to remove or reduce the competitive advantage that a transmission owner had in favor of its own power sales. Unless a separate transmission charge is added to the selling utility's production costs, a transmission owner will have a competitive advantage over other generation sources. FPC's primary argument is that broker sales utilize assets that are supported by both wholesale and retail jurisdictions. While this has some intuitive and logical appeal, it flies in the face of Order No. 12923, Docket No. 830001-EU-B, issued January 24, 1984, and Order No. PSC-97-0262-FOF-EI, Docket No. 970001-EI, issued March 11, 1997. Order No. 12923 removed all gains from Broker sales from base rates and required that these gains be credited through the utility's fuel clause. In return for this treatment, the selling utility was allowed to retain 20% of the gain below the line as an incentive. Page 2 of Order No. PSC-97-0262-FOF-EI reaffirms the Commission's policy of crediting **all** revenues from non-separated sales to the retail ratepayers. FPC did not request reconsideration of either Order. Order No. PSC-98-0073-FOF-EI states that "[T]he evidence adduced in this proceeding does not support a deviation from our policy." (Order, pg 7) In other words, FPC tried to convince the Commission to change its policy and was unsuccessful. It appears that FPC is really requesting that the record relied upon for Order No. PSC-97-0262-FOF-EI be reopened, not the instant proceeding. Regardless,

this issue was thoroughly discussed at hearing and in the companies' briefs. The Commission did not find the arguments compelling.

FPC also argues that its stockholders will be harmed if the Commission's Order is upheld. What FPC fails to mention is that under its method, retail ratepayers will be harmed immediately. Any perceived stockholder harm is premature because the FERC has yet to rule on each utility's proposed method for unbundling transmission costs and revenues for broker sales. After the FERC makes a final ruling, any "harm" placed on FPC's stockholders could be mitigated by a tariff revision with the FERC. FPC's retail ratepayers do not have such an option. This was the one of the reasons for the overall recommendation to keep the gains on broker sales the same before and after FERC Order 888. In staff's mind, retail ratepayers should not be penalized due to a mere reclassification of a revenue source. This would be consistent with the decision contained in Order No. 12923 and maintain the original intent of the broker system.

FPC also contends that if the Commission's Order is upheld, its will be required to credit "more revenue that it receives". In other words, FPC contends that they would have to credit the same revenues in both the retail and wholesale jurisdictions. However, most of this perceived harm is offset by the 20% below the line incentive that FPC retains when it makes a broker sale. This same double hit argument was made by Gulf Power and TECO. Staff notes that the FERC has yet to make a final ruling on these tariffs and neither Gulf or TECO requested reconsideration of this issue. Therefore, it appears that FPC's concerns are premature and not shared by at least two other utilities. Regardless, this issue was thoroughly discussed at hearing and in the companies' briefs. The Commission did not find the arguments compelling.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No.

STAFF ANALYSIS: The Fuel and Purchased Power Adjustment Clause is an on-going docket and should remain open.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.	DOCKET NO. 980001-EI ORDER NO. PSC-98-0073-FOF-EI ISSUED: January 13, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
SUSAN F. CLARK
JOE GARCIA

ORDER DETERMINING APPROPRIATE TREATMENT OF TRANSMISSION REVENUES AND COSTS FOR SCHEDULE C, ECONOMY ENERGY TRANSACTIONS

BY THE COMMISSION:

The Federal Energy Regulatory Commission's (FERC) Order 888, issued April 24, 1996, required investor-owned electric utilities to unbundle transmission and ancillary charges from economy energy sales. The primary purpose of FERC's unbundling requirement was to remove or reduce the competitive advantage that a transmission owner had in favor of its own power sales. Florida Power & Light Company (FPL), Florida Power Corporation (FPC), Gulf Power Company (Gulf) and Tampa Electric Company (TECO) filed amendments to their existing economy coordination tariffs on January 1, 1997, at FERC. FERC has not yet ruled on these tariffs. Each of the utilities implemented the tariffs on an interim basis, subject to refund, as of January 1, 1997. Prior to FERC Order 888, the utilities used a consistent pricing and cost recovery methodology for broker sales. However, each of the four utilities have implemented a different method of pricing and/or cost recovery for broker transactions subsequent to the FERC Order.

Four issues concerning the pricing and cost recovery of broker sales were addressed during the August 14-15, 1997, hearing in this Docket. The Florida Industrial Power Users Group (FIPUG) and the Office of Public Council (OPC) intervened in this proceeding. FPL, FPC, Gulf, TECO, FIPUG and OPC participated in the August evidentiary hearing and filed post hearing briefs. A recommendation was filed on December 4, 1997, for consideration at the December 16, 1997, Agenda Conference. Having considered all

the evidence and the arguments of the parties, we now render our decision.

Electric Utilities' Methodologies For Identifying Transmission Cost and Pricing of Broker Sales Between Two Directly Interconnected Utilities

~~The first issue is the manner in which transmission costs should affect the transaction price of an economy, Schedule C, broker transaction between two directly interconnected utilities.~~
The Florida Energy Broker Network was designed to replicate an economic dispatch for hourly non-firm economy sales. Prior to FERC Order 888, buy and sell quotes were based on incremental system costs and any applicable variable O&M costs. Transmission costs were not included in broker quotes. Matches were made on the broker system by maximizing savings between the buyer's decremental production cost and the seller's incremental production cost. A transaction price was then determined by averaging the buyer's and seller's quotes. For example, the transaction price for a sale between a buyer with a quote of $30 and a seller with a quote of $20 would be $25. This practice maximizes the statewide savings for participants.

There is disagreement among the four utilities as to whether the FERC unbundling requirement for existing agreements allows an additional charge for transmission for broker transactions involving two adjoining utilities. FPC and TECO stated that for existing agreements, FERC would not allow an additional transmission charge to be added to the existing transaction price when a 'split-the-savings' pricing approach was used. Both FPL and Gulf believe that an additional charge was allowed. FPL's witness Villar stated that FERC's position on whether an additional transmission charge can be added was unclear and would be settled through litigation before FERC.

The following table summarizes the pricing methodology proposed by each utility when there are only two utilities involved, a buyer and a seller.

	FPC	TECO	FPL	GULF
Sell Quote	$20	$20	$20	$20
Buy Quote	$30	$30	$27	$30

	FPC	TECO	FPL	GULF
Transaction Price	**$25**	**$25**	**$23.50**	**$25**
Seller's Margin	**$5**	**$5**	**$3.50**	**$5**
Buyer Billed For Transmission	**$0**	**$0**	**$3**	**$3**
Buyer's Total Cost	**$25**	**$25**	**$26.50**	**$28**

Under the pricing methodologies of FPC and TECO, matches are made based on the incremental system production cost, just as before FERC Order 888. For example, the transaction price for a sale between a seller with incremental system costs of $20 and a buyer with decremental system costs of $30 would remain $25. Both FPC and TECO unbundled a transmission charge from the existing transaction price, resulting in a total cost to the buyer of $25. FPC includes a separate charge for transmission for economy sales made pursuant to new agreements executed after July 9, 1996. However, FPC stated that these economy sales are not made on the broker system.

Gulf only makes economy sales as a part of Southern Company. As in FPC's and TECO's methodology, under Gulf's methodology, matches are made based on the incremental production cost. The transaction price remains $25, just as before FERC Order 888. However, the buyer is billed separately for the $3 transmission charge, resulting in a total cost for the buyer of $28.

We agree with the positions of FPC, TECO and Gulf. Matches should be made based on the incremental system production cost, just as before FERC Order 888. This will maintain the original purpose of the broker system to maximize statewide incremental system cost savings for participants. Consistent with Gulf's methodology, any transmission charge required by the FERC Order should not influence the matches made on the broker system and the gains associated with broker sales. We find that this is appropriate because the transmission charge is not an incremental production cost associated with the sale, but a contribution to fixed costs.

In contrast to FPC, TECO and Gulf, under FPL's methodology, the transmission charge affects the transaction price of a broker sale. FPL proposes to subtract the transmission charge from the buyer's quote before determining the transaction price. For example, if FPL were the seller with a quote of $20, the buyer's

quote of $30 would be reduced by FPL's transmission charge ($3) to $27. According to FPL's witness, Villar, FPL's quote of $20 and the buyer's adjusted quote of $27 are then averaged by the broker system to obtain a transaction price of $23.50. The resulting gain is then $3.50. FPL would then bill the buyer separately for the $3 transmission charge, resulting in a total cost to the buyer of $26.50. It appears that OPC has adopted FPL's methodology as an interim method.

We disagree with FPL's pricing methodology because the transaction price should not be affected by the transmission charge, which is not an incremental cost of the sale. We disagree with the assertion that FPL's proposed pricing methodology is "just like it is done for transactions between non-directly interconnected utilities." (Tr. 100-101) It is clear from the record that for non-directly interconnected utilities, a separate wheeling charge is added to the transaction price, resulting in the buyer paying the **full** transmission charge. For a wheeled sale, the buyer would pay a $3 wheeling fee in addition to the $25 transaction price, resulting in an effective price of $28, just as in Gulf's methodology. In contrast, FPL's pricing methodology results in a cost of $26.50 for the buyer and has the effect of splitting the transmission charge between the buyer and the seller.

Therefore, we ~~hold~~ **believe** that the transaction price of a broker sale between two directly interconnected utilities ~~shall~~ **should** be based on the incremental system production cost, just as before FERC Order 888. Any transmission charge required by FERC Order 888 should not influence the gain on a broker sale. Any FERC required transmission costs ~~shall~~ **should** be added after the broker has matched a buyer and seller. This method preserves the intent of the broker system.

Transmission Cost Recovery for Broker Sales Between Two Directly Interconnected Utilities

The ~~next~~ **first** issue to be resolved is the manner in which transmission costs should be recovered for an economy, Schedule C, broker transaction between two directly interconnected utilities.

RECOVERY FOR THE SELLER:

Our policy on the treatment of the costs of economy sales was established in 1977. Selling utilities were allowed to recover the fuel component of economy energy sales through the Fuel and Purchased Power Cost Recovery clause (fuel clause). The profit

margin, or gain, on economy sales was included in base rates. Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B, removed economy energy sales profits from base rates and required that these gains be credited to the fuel clause. The Order further stated that the economy energy gains were to be divided between ratepayers and stockholders on an 80%-20% basis.

As a result of the FERC unbundling requirement, each of the four utilities is following a different cost recovery method for economy sales. Based on a hypothetical $20 sell, $30 buy, and $3 transmission quote, the following table summarizes the utilities' methods as well as the effect of our findings on each utility:

Before 888			After 888							
All IOUs			FPC	FPSC	FPL	FPSC	Gulf	FPSC	TECO	FPSC
A	Transaction price	$25.0	$25.0	$25.0	$23.5	$23.5	$25.0	$25.0	$25.0	$25.0
B	Additional transmission charge	$0.0	$0.0	$0.0	$3.0	$3.0	$3.0	$3.0	$0.0	$0.0
C	Buyer's cost (A+B)	$25.0	$25.0	$25.0	$26.5	$26.5	$28.0	$28.0	$25.0	$25.0
D	Less incremental fuel cost	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0
E	Less credit to oper. revenue (trans. revenue)	$0.0	$0.0	$0.0	$0.0	$0.0	$3.0	$0.0	$3.0	$0.0
F	Less credit to fuel clause (trans. revenue)	$0.0	$0.75 ($0.00 retail)	$0.0	$3.0	$3.0	$0.0	$3.0	$0.0	$0.0
G	Net gain (C-D-E-F)	$5.0	$4.25 ($4.15 retail)	$5.0	$3.5	$3.5	$5.0	$5.0	$2.0	$5.0
H	Credit to fuel clause (.80 * G)	$4.0	$3.32 (retail)	$4.0	$2.8	$2.8	$4.0	$4.0	$1.6	$4.0
I	Below the line (.20 * G)	$1.0	$0.83	$1.0	$0.7	$0.7	$1.0	$1.0	$0.4	$1.0

Prior to FERC Order 888, the transaction price of the example sale above would be $25, with a $5 gain for the seller. The gain would be split 80%-20% between ratepayers ($4) and stockholders ($1). (See rows H and I in Table above.) As a result of the FERC Order, the utilities proposed four different cost recovery methods. This ultimately affects the gains from economy sales and therefore the credit to the seller's ratepayers through the fuel clause.

Our holdings herein attempt to maintain the level of gains the same as before FERC Order 888. This will hold ratepayers harmless to the FERC Order, which has imposed no additional costs. We define the gain on each sale as the total revenue minus incremental system costs and any transmission charge which is separately billed to the buyer. Under the hypothetical, the gain for FPC, Gulf and TECO is $5 (See row G in Table above). This is split 80%-20% between ratepayers ($4) and shareholders ($1), the same as before FERC Order 888. We disagree with the cost recovery method proposed by FPC because of the separations method applied. We also disagree with TECO's cost recovery method because TECO is crediting the portion of the original gain the company has 'earmarked' for transmission to operating revenues. These issues are discussed further below.

As displayed in the table above, our findings do not result in the same gain for FPL as before FERC Order 888. FPL is the only utility for which the transaction price changed subsequent to the FERC Order. However, maintaining the same gain for FPL would require imputing revenues and recreating hourly broker matches. We find that to the extent possible, stockholders and ratepayers should not be harmed by the FERC Order.

An important aspect of the seller's recovery is the regulatory mechanism through which transmission revenues are credited. Economy sales have traditionally been treated as non-separated sales by this Commission. In Order No. PSC-97-0262-FOF-EI, issued March 11, 1997, in Docket No. 980001-EI, the Commission reconfirmed its policy of crediting all revenues resulting from non-separated sales through the fuel and capacity cost recovery clauses. The Order states:

> Because non-separated sales are sporadic, a utility does not commit long-term capacity to the wholesale customer. Non-separable sales are not assigned cost responsibility through a separation process, therefore the retail ratepayer supports all of the investment that is used to make the sale. In exchange for supporting the investment, the retail ratepayer receives all of the revenues, both fuel and non-fuel, that the sale generates through a credit in the fuel and capacity cost recovery clauses. For Broker sales, the utility's shareholders receive 20 percent of the profit associated with the sale. (Pg. 2)

The evidence adduced in this proceeding does not support a deviation from our policy. The transmission charge required by the FERC Order is a contribution to fixed transmission costs, not an incremental cost associated with the sale. Since fixed transmission expenses are included in retail base rates and fully supported by retail customers for non-separated sales, retail ratepayers should benefit fully from the transmission revenues generated by economy sales. We disagree with TECO's witness, Branick, that crediting these revenues to operating revenues will allow retail customers to benefit fully from transmission related revenues. If this revenue is credited to operating revenues, as suggested by TECO and Gulf, retail ratepayers will only benefit by a base rate type of proceeding, such as a rate case or an overearning stipulation, applicable only to the specific utility. In contrast, if transmission revenues are credited to the fuel clause, as suggested by FPL, FIPUG, OPC and FPC, retail ratepayers will be fully compensated for their investment in the facilities used to make the sale. FPC also stated that to the extent the company collects additional revenues for transmission, the additional revenue should be credited to operating revenues. However, under FPC's methodology, additional transmission revenue is only collected for economy sales made outside the broker system.

Further, transmission revenues from economy sales between directly interconnected utilities were not anticipated as a credit to operating revenues when base rates were set. It follows that base rates are higher than they would have otherwise been for the seller. Crediting operating revenues with these transmission revenues, without a downward adjustment to base rates would result in a windfall for the seller.

Finally, we do not find Gulf's and TECO's argument that FERC requires non-firm transmission revenues to be treated as a 'revenue credit' a compelling reason to credit the seller's transmission revenues from broker sales to operating revenues. According to TECO's witness Kordecki, in Order 888A, FERC "explained that revenue from non-firm transmission services should continue to be reflected as a revenue credit in the derivation of firm transmission tariffs." (Tr. 235) Gulf's witness, Howell, uses this FERC requirement to argue that if these revenues were credited to the fuel clause, the utility would be required to credit the revenue twice, resulting in an underrecovery for the selling utility. No additional supporting evidence beyond the testimony of witnesses Kordecki and Howell was supplied by Gulf or TECO explaining this FERC requirement. It also appears that the testimony of TECO's witness Branick conflicts with the testimony

provided by TECO's witness Kordecki. Branick stated that TECO's treatment of these transmission revenues was consistent with our policy of crediting third party transmission revenues to operating revenues for **retail** ratemaking purposes, rather than crediting to wholesale customers in the establishment of firm transmission rates. FPL and FPC did not express concern about this issue.

Another important aspect of the seller's recovery is the separation factor for transmission revenues. Currently, both the fuel costs and gain from economy sales are separated between retail and wholesale customers based on energy. This separation occurs automatically for all revenues and expenses flowing through the fuel clause. However, FPC believes that the seller's transmission revenues should be separated by a transmission-related separations factor before any gains on economy sales are calculated. For FPC, "jurisdictional responsibility for retail customers is approximately 95% for generation-related and 75% for transmission-related," expenses. (Tr. 60) According to FPC's calculations, applying the transmission-related separations factor to this revenue results in a reduced credit to retail customers through the fuel clause for sales under existing economy agreements.

We do not agree with FPC. The transmission-related separations factor FPC was referring to was the result of the separations, or cost of service, study applied in the establishment of base rates. This separation factor allocates a portion of transmission costs to separated wholesale sales. As noted above, economy sales are non-separated sales. In a sense, FPC is asking that these non-separated sales be treated as separated sales. We see no compelling reason for applying a base rate separations factor to non-separated sales. Previously, we have clearly stated that revenues from non-separated sales should be credited to retail customers to compensate them for supporting the investment used in making these sales.

Therefore, we hold that the gains from broker sales should be the same before and after FERC Order 888. We define the gains from broker sales as the total revenue minus incremental system cost and any transmission charge which is separately billed to the buyer. The gains from broker sales shall be split 80%-20% between ratepayers and shareholders pursuant to Order No. 12923, issued January 24, 1984, Docket No. 830001-EU-B. Any additional transmission revenues which are separately billed to the buyer shall be credited to the fuel clause of the selling utility. These additional transmission revenues shall be separated based on energy in accordance with the normal procedure established for the fuel

clause of the selling utility. Each utilities' fuel clause shall be adjusted to reflect our decision in this docket effective January 1, 1997, for all broker transactions. Each utility shall reflect the impact of our decision in its projection testimony and filing in Docket No. 980001-EI.

RECOVERY FOR THE PURCHASER:

All costs for economy purchases are currently recovered through the fuel clause for the purchaser. (Tr. 92) There is agreement among all the parties participating in this docket that the full cost of economy purchases between directly interconnected utilities, including any new transmission charges resulting from the FERC Order, should continue to be recovered through the fuel clause.

We agree that the total cost of an economy purchase should be recovered through the fuel clause. The purchaser of economy energy has a choice between purchasing or generating the power. If the purchaser were to generate the power, the associated incremental system costs would be recovered through the fuel clause. The full costs of an economy purchase should be recovered in the same manner to avoid false incentives in favor of generation or purchase alternatives with relatively low transmission charges. If the transmission charge is recovered through base rates rather than the fuel clause, there is no guarantee that the purchaser will choose the least cost alternative.

Therefore, we hold that all actual costs of a broker purchase, including any transmission costs, shall be recovered through the fuel clause.

Electric Utilities' Methodologies For Identifying Wheeling Transmission Costs and Pricing of Wheeled Broker Sales

~~This section addresses the manner in which transmission costs should affect the transaction price of an economy, Schedule C, broker transaction that requires wheeling between two non-directly interconnected utilities.~~ This section identifies the manner in which each party interpreted the impact of FERC Order 888 on the transaction price of a broker sale that requires wheeling between two non-directly interconnected utilities.

The FERC unbundling requirement has not affected the pricing methodology for wheeled sales on the broker system. ~~The broker match for a wheeled sale is still made based on maximizing~~

~~incremental system cost savings.~~ The wheeling fee is ~~then~~ added to the buyer's cost and billed separately to the buyer. We ~~find~~ believe that this is appropriate. ~~and should not change due to FERC's requirement that the seller unbundle transmission costs.~~

FPC, TECO, Gulf and FIPUG agree that the FERC unbundling requirement should not affect the pricing methodology for a wheeled sale. However, OPC appears to adopt the pricing methodology proposed by FPL for sales between directly interconnected utilities as an interim methodology for wheeled sales. We disagree that FPL's pricing methodology is "just like it is done for transactions between non-directly interconnected utilities." (Tr. 100-101) It is clear from the record that for non-directly interconnected utilities, a separate wheeling charge is added to the transaction price, resulting in the buyer paying the **full** transmission charge. For a wheeled sale, the buyer would pay a $3 wheeling fee in addition to the $25 transaction price, resulting in an effective price of $28.

Therefore, we ~~hold~~ believe that transmission wheeling costs should continue to be added to the broker transaction price after a match is made to determine the purchaser's total price.

Transmission Cost Recovery for Wheeled, Schedule C, Broker Transactions

~~This section addresses~~ The second issue to be resolved is the manner in which transmission costs should be recovered between non-directly interconnected utilities.

We treat third party wheeling revenues uniformly. For non-broker sales, either short-term firm or non-firm, wheeling revenues are credited to operating revenues by the wheeler. Likewise, third party wheeling revenues associated with broker sales are currently credited to operating revenues by the wheeler.

Unlike transmission revenues for the seller, transmission revenues for the wheeler of an economy sale were included in the determination of base rates during the last rate case for each of the utilities. Base rates are therefore lower than they would have been if these revenue credits were not considered. Requiring that wheeling revenues be credited to the fuel clause without an upward adjustment to base rates could result in an underrecovery for the wheeling utility. We agree with FPL, FPC, Gulf and TECO that wheeling revenues should continue to be credited to operating revenues.

We disagree with FIPUG's and OPC's position that third party wheeling revenues from broker sales should be credited to the fuel clause. No evidence was presented which would justify treating third party wheeling revenues from economy sales differently than that for other wheeled sales as a result of the FERC Order.

Therefore, we hold that all costs for the purchaser, including any third party wheeling fees, shall continue to be recovered through the fuel clause. In addition, all third party wheeling revenues shall continue to be treated as a credit to operating revenues.

Based on the foregoing, it is

~~ORDERED by the Florida Public Service Commission that, as set forth in the body of this Order, the transaction price of a broker sale should be based on the incremental system production cost, just a. before FERC Order 888. Any transmission charge required by FERC Order 888 should not influence the gain on a broker sale. As outlined in Gulf's proposal, any FERC-required transmission costs should be added after the broker has matched a buyer and seller. This method preserves the intent of the broker system. It is further,~~

ORDERED that **as set forth in the body of this Order,** the gains from broker sales should be, to the extent possible, the same before and after FERC Order 888. Furthermore, because broker sales are non-separated sales, any additional transmission revenues shall be credited and separated according to the normal procedure within the fuel adjustment clause of the selling utility. For the purchaser, all actual costs shall continue to be recovered through the fuel clause. It is further

ORDERED that the fuel clause shall be adjusted to reflect the Commission's decision effective January 1, 1997, for all broker transactions. It is further

~~ORDERED that transmission wheeling costs shall continue to be added to the broker transaction price after a match is made to determine the purchaser's total price. It is further~~

ORDERED that third party wheeling revenues shall continue to be treated as a credit to operating revenues for the wheeling utility. Wheeling costs shall continue to be recovered through the fuel clause for the purchaser.

By ORDER of the Florida Public Service Commission this ___ day of __________, _____.

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BLANCA S. BAYÓ, Director
Division of Records and Reporting

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